

# **2006 VERMONT BUSINESS INCOME TAX RETURN INSTRUCTIONS**

## **(For Subchapter S Corporations, Partnerships and Limited Liability Companies)**

**Form Summary List:** (Check the availability of the latest revisions at our website: <http://www.state.vt.us/tax>)

**Form S-1 Registration and Vermont Business Account Number (VBA#) Application** For use by all taxable entities registering for a Vermont Business Account Number (VBA#).

**\*\* RETURNS AND PAYMENTS CANNOT BE PROCESSED WITHOUT THE ASSIGNED VBA# \*\***

**VT Form BI-471 Vermont Business Income Tax Return** For use by those entities not filing federally as a C Corporation to calculate Vermont business income tax liability. These entities include Partnerships, Subchapter S Corporations, and Limited Liability Companies.

**FORM BI-471 IS THE FIRST PAGE OF EVERY RETURN AND THE RETURN IS INCOMPLETE WITHOUT IT.**

**VT Form BI-472 Subchapter S Corporation Schedule** For use by those entities filing Federal Form 1120S and having Vermont nonresident members to calculate net income apportioned and allocated to Vermont.

**VT Form BI-473 Partnership/Limited Liability Company Schedule** For use by those entities filing Federal Form 1065/1065-B and having Vermont nonresident members to calculate net income apportioned and allocated to Vermont.

**VT Form BA-402 Apportionment & Allocation Schedule** For use by all taxable entities having activity (income or losses) in Vermont and at least one other state/province.

**VT Form BA-403 Application for Extension of Time to File Vermont Corporate/Business Income Tax Return** For use by those entities requesting more time to file their Vermont Corporate or Business Income Tax Return.

**VT Form BA-404 Tax Credits Earned, Applied, Expired, and Carried Forward** For use by those entities awarded Economic Advancement Tax Incentive (EATI) Credits or claiming credit incentives for New Jobs; Charitable Housing; Rehabilitation of Certified Historic Buildings; Older or Historic

Buildings Rehabilitation; Affordable Housing; Financial Services Development; Platform Lifts, Elevators, Sprinkler Systems; Code Improvements to Commercial Buildings; Qualified Sale of Mobile Home Park; and, Employee Training.

**VT Form BA-405 Expired EATI Credits: Annual Activity Report** For use by those entities awarded Economic Advancement Tax Incentives (EATI) credits, whose awards have expired that were claimed within six years of the current tax year; and, the entity has no further outstanding awards for EATI credits.

**VT Schedule BA-410 Affiliation Schedule** For use by those entities which are members of an affiliated group desiring to file Vermont income tax returns on a consolidated basis as permitted by the Internal Revenue Code.

**VT Form WH-435 Estimated Income Tax Payments For Nonresident Shareholders, Members, or Partners** For use by those entities making estimated tax payments for its non-Vermont shareholders, partners, or members.

**VT Form WH-435SH Safe Harbor Worksheet** For use by entities to calculate a "safe harbor" and "catch-up payment" for the estimated tax payments for non-Vermont shareholders, partners, or members.

**VT Schedule K-1VT Shareholder's, Partner's, or Member's Information** For all shareholders, partners, or members summarizing the Vermont net taxable income, Vermont nonresident estimated payments, and all eligible credits.

**VT Technical Bulletin 5 (TB-05)** S Corporations, Partnerships, and Limited Liability Returns; Estimated Payments of Income Tax by These Entities on Behalf of Their Shareholders, Partners, and Members.

**VT Technical Bulletin 6 (TB-06)** Estimated Payments by S Corporations, Partnerships, and Limited Liability Companies on Behalf of Shareholders, Partners, and Members -- Supplement to TB-05 addressing some frequently asked questions regarding these payments.

### **Who Must File**

Effective for tax years beginning on or after January 1, 1997, every Subchapter S Corporation, Partnership and Limited Liability Company which engages in activities in Vermont must file a return with the Commissioner of Taxes. **This includes those entities receiving income as a partner, shareholder, or member.**

### **Dates for Filing and Payments**

Partnership, Subchapter S Corporation, and Limited Liability Company returns are due on the date prescribed for filing under the Internal Revenue Code. For calendar year Subchapter S Corporations, this date will generally be March 15th. For fiscal year Subchapter S Corporations, the return is due the 15th day of the 3rd month following the end of the fiscal year. Calendar year Partnership and Limited Liability Company returns are generally due April 15th, and fiscal year returns are due the 15th day of the 4th month following the end of the fiscal year.

The payment of the annual entity tax of \$250 is due on or before the original due date of the return.

Entities holding Federal extensions may file thirty days after the extended Federal due date. Entities requiring only a Vermont extension may file **VT Form BA-403, Application for Extension of Time to File Vermont Corporate/Business Income Tax Return**, by the original return due date. A copy of Federal Form 7004, Application for Automatic Extension of Time to File Corporation Income Tax Return (for Subchapter S Corporations), or Federal Form 8736 or 8800, Application for Automatic/Additional Extension of Time to File for a Partnership, ... etc., may be used if it clearly states the fiscal year ending and the entity's Vermont Business Account Number. ***An extension of time to file does not extend the time to pay.*** If you estimate that you owe tax, send a tax payment with the extension request. Any tax due and unpaid by the original due date may be assessed interest and penalty.

## **Estimated Taxes and Estimated Payments**

For tax years beginning January 1, 1997, Partnerships, Subchapter S Corporations, and Limited Liability Companies are given pass-through tax treatment whereby tax is imposed on the income of the business only at the shareholder, partner, or member level. The pass-through entity is liable for the minimum annual (entity) tax of \$250 for each taxable year beginning on or after January 1, 1998. **The entity is also obligated to make payments for nonresident shareholders, partners or members for the income attributable to Vermont at the second lowest marginal rate. Each payment is a credit against the shareholder's, partner's or member's individual income tax liability.** Estimated payments are due on the 15th day of the 4th, 6th and 9th months of the tax year and the 1st month of the subsequent year. For calendar year entities, these dates are normally April 15th, June 15th, September 15th, and January 15th. These payments are made using **VT Form WH-435, Estimated Income Tax Payments For Nonresident Shareholders, Members, or Partners.** *Other methods of payment may result in both the entity and its members not receiving proper credit.* **\*\* Certain S Corporations, Partnerships, and Limited Liability Companies may file and remit the estimated tax payments on behalf of nonresident shareholders, partners and members annually, on January 15th, instead of quarterly. To qualify, the entity must have a single (nonresident) shareholder, partner or member and a tax liability of \$250 or less in the prior year, or 2 or more shareholders, partners or members and a tax liability of \$500 or less in the prior year.**

The May 2005 revision to Technical Bulletin 5 (TB-05) provides for an "administrative safe harbor" and a "catch-up payment" for estimated payments due on or after April 15, 2005. This "catch-up payment", if required, is made at the time that the entity files its business income tax return or extension request. The "catch-up payment" is determined using VT Form WH-435SH (Safe Harbor Worksheet) and is sent in with a completed VT Form WH-435 and the payment.

If any partner or member is another entity, the minimum annual tax is \$250 for each one. For additional information see VT Technical Bulletin 5 (TB-05), VT Technical Bulletin 6 (TB-06), and VT Form WH-435SH at our web site [www.state.vt.us/tax](http://www.state.vt.us/tax) under the headings of "Legal Interpretations" and "Forms", respectively.

## **Interest, Late Fees, and Penalties**

Interest is charged on payments not made on or by the statutory due date. The rate of interest is established each year with reference to the average prime rate.

**Payments not made and returns not filed when due are subject to a failure to pay/file penalty of 1% per month of the outstanding liability up to 25% for taxable years beginning on or after January 1, 2002. If the filing is over 60 days late from the original due date, even if no tax is due, a \$50 late penalty applies unless timely filed under extension. The Commissioner of Taxes may abate penalty for reasonable cause.**

## **Consolidated Returns**

Affiliated entities with identical ownership may elect to file a consolidated Vermont return. Income of Subchapter S Subsidiaries (QSSS's) are included in the parent's return if it is included in the parent's Federal return. A consolidated Vermont return must include only entities that have income allocated or apportioned to Vermont. To elect the consolidated Vermont return, you must file VT Schedule BA-410, Affiliation Schedule, with VT Form BI-471, Business Income Tax Return, each year. Once the election has been made, entities must continue filing on a consolidated basis until the

Commissioner of Taxes authorizes separate filing. (Refer to VT Schedule BA-410 for further guidance.) NOTE: The Corporate Income Tax Affiliation Schedule, VT BA-410, is used by both Corporate and Business Income Tax filers.

## **Composite (Block) Returns**

### **(See Technical Bulletin (TB-05))**

**Definition:** A composite return is a return filed by an entity on behalf of its eligible nonresident shareholders, partners, or members stating the income allocable to each shareholder, partner, or member. Composite returns relieve the included shareholders, partners or members from the responsibility of filing individual income tax returns.

### **Eligible nonresident shareholders, partners, or members:**

In order to be eligible for inclusion on a composite return, a nonresident shareholder, partner, or member cannot have any income taxable to the State of Vermont other than that which is to be included in the composite return; and cannot have income attributable to Vermont in excess of \$300,000.

**Who May File:** Any entity with eligible nonresident shareholders, partners, or members may file an election for composite filing. An election for composite filing shall be valid for a period of five years unless the election is revoked for failure to meet the requirements for composite filing. Such an election shall be made prior to the date that the first quarterly estimated payment is due.

Every eligible nonresident shareholder, partner, or member must be included in a composite filing unless the taxpayer has specifically applied for and received permission from the Department to exclude a specific eligible nonresident shareholder, partner, or member.

In the event that an entity applies for and receives permission to exclude specific eligible nonresident shareholders, partners, or members, such permission shall constitute an election to exclude such person for a period of not less than five years.

**Tax Rate:** The composite filing tax rate is **8.5%**.

In no event shall the pro rata composite tax attributable to a non natural shareholder, partner, or member be less than the minimum tax due that would otherwise have been due from that entity if it had not been relieved of a Vermont filing requirement because of its inclusion in the composite filing.

**Refunds:** To the extent that the tax due is less than the estimated tax payments made by the entity on behalf of its nonresident shareholders, partners, or members, the refund shall be paid to the entity and not to the individual shareholders, partners, or members.

**Other requirements:** A signature on a composite return indicates that the information presented on that return is true, correct and complete. Nonetheless, the Department of Taxes may contact the Subchapter S Corporation, Partnership or Limited Liability Company for further information about the return. It is recommended that composite filers maintain a power of attorney (POA) with their records that is signed by each qualified nonresident shareholder, partner or member. The POA gives the Subchapter S Corporation, Partnership or Limited Liability Company the authority to act on the shareholder's, partner's or member's behalf. The Department may ask the composite filer to submit a copy of a POA before disclosing confidential information pertaining to the return.

See the Department of Taxes' web site under "Forms" for POA requirements effective July 1, 2002. POA's executed prior to July 1, 2002 are still valid.

### Facsimile Substitute Forms:

Any facsimile or substitute form must be approved by the Department of Taxes prior to its use. If you use computer-generated returns, the software company is responsible for requesting approval and receiving an assigned bar code. **A \$25 fee may be assessed for a taxpayer or preparer who files returns that cannot be**

**processed or require special steps to process.** Call (802) 828-2512 for further information on facsimile or substitute forms.

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## **VT FORM BI-471** **2006 BUSINESS INCOME TAX RETURN INSTRUCTIONS**

**Please use blue or black ink.**

**Name/Address** Print or type the entity name and address in the space provided.

**Box A** Check all applicable boxes for the characteristic(s) of the return. If filing as a composite filer, note that you are making a binding election. See Technical Bulletin (TB-05).

**Box B Vermont Business Account Number (VBA#).** Enter your six-digit account number and the first two letters of your entity name. This is not the same account number issued for employee Withholding, Sales and Use, or Meals and Rooms tax. Enter the **fiscal/calendar year ending (FYE)**, using a 4-digit year and 2-digit month; i.e., "200612". Enter your **Federal Identification Number**.

**\*\* RETURNS AND PAYMENTS CANNOT BE PROCESSED WITHOUT THE ASSIGNED VBA # \*\***

**Box C** Check the box indicating the Federal tax form filed. See Line 1 instructions below if the entity is permitted to file as an individual/sole proprietor.

**Box D** Enter the Business Code Number used on the federal return.

**Box E** Check "Yes" or "No". *If you check "Yes", the Department of Taxes WILL NOT mail you any Income tax forms next year.*

**Entity Declaration** Answer the three questions immediately before the tax computation section. Please note the new item for Real Estate Withholding.

### **Tax Computation Section**

**Exceptions** For an exception to be recognized by the Department of Taxes, it must be documented with the return. Normally, a copy of the federal return will be sufficient.

**SMALL FARM** as defined in Title 32 V.S.A. §5832(2)(A), pays only a \$75 annual entity tax. The entity must be solely owned by active participants and have gross receipts of less than \$100,000. Partnerships and LLCs provide a copy of the Federal Schedule F.

**SINGLE MEMBER ENTITY**, electing to be ignored for Federal Tax purposes, pays \$0 annual entity tax. If, for example, filing an individual income tax return, Federal Form 1040, Schedules C, E, F, etc., copies of these forms must be included with the return. Normally with this filing, the Vermont Business Account Number (VBA#) will be closed and no further entity filing is required. **Single Member Limited Liability Companies, (SMLLC's), where the single member intends to or routinely files Federal Form 1040 and applicable schedules, may forgo registering and filing a**

**one-time Business Income Tax Return with the Department of Taxes. However, deviations from this privilege or failing to register and file when subsequently required to, will be pursued by the Department of Taxes as an income tax violation.**

Entities with **NO VERMONT ACTIVITY** or **TAXABLE INVESTMENTS** or **INACTIVE**, that is, having neither receipts nor expenses other than start-up or close-out expenses, pay \$0 annual entity tax.

A partnership electing **NOT** to be **TAXED AS** a **PARTNERSHIP**, under Internal Revenue Code Sec. 761 or Check-the-Box Regulations pays \$0 annual entity tax. **Provide a statement as to the election being taken and cite authority for the election.**

A **QUALIFIED SUBCHAPTER SUBSIDIARY** permitted to file with its parent corporation under the Internal Revenue Code, pays \$0 minimum tax. However, to establish the affiliation, **VT Form BA-410, Affiliation Schedule**, is required with the return of the parent corporation.

**Line 1** Enter the minimum entity tax of \$250 or multiples of the minimum tax. If you are not filing a composite return, then go to Line 4. If a composite filer, see Technical Bulletin (TB-05).

(NOTE: If the entity is permitted to file as an **individual/sole proprietor** under the Internal Revenue Code, the entity **IS NOT** subject to the minimum entity tax and should enter \$0. Complete the rest of this form and attach a copy of the Federal return, Form 1040, pp. 1 & 2, including Schedule C, E, or F, etc.)

**Line 2** This line is normally \$0 unless the entity is filing a composite (block) return. If this is a composite return, enter the amount of taxable apportioned and allocated Vermont income. This is the total from Side 2, Column D of **VT Form BI-472, Vermont S Corporation Schedule**, or Side 2, Column F of **VT Form BI-473, Vermont Partnership/Limited Liability Company Schedule**. A Subchapter S Corporation subject to a Federal Income Tax, **such as built-in gains, capital gains or LIFO recapture**, use the applicable corporate tax rate provided in the instructions for **VT Form CO-411**. Enter the amount of that Apportioned/Allocated Vermont income.

**Line 3** Multiply Line 2 by the composite tax rate of 8.50% or the corporate rates from VT Form CO-411. Enter the result. Non-composite filers, enter \$0.

**Line 4** Add Lines 1 and 3 above. Enter the result here. This is the total entity tax and composite income tax.

**Line 5** Use Schedule 1 on Side 2 to calculate your total payments and credits. Enter the result from Side 2, Line 15 here. (See the discussion for Side 2, Line 12.)



**Line 6** Total balance of tax due with this filing. If Line 4 is greater than Line 5, the difference is your balance due. Make your check or money order payable to Vermont Department of Taxes. If you owe taxes, you may also owe interest, penalty, and late fees on the tax.

**Line 7** Overpayment to be Refunded or Carryforward to next year. Subtract Line 4 from Line 5 and enter the result. This is the amount of your refund or carryforward to next year. Please indicate the amount for each. Amounts of less than one dollar will not be refunded unless specifically requested.

### **Schedule 1 Tax Payments and Credits Computations**

**Line 8** Enter the amount of the 2005 overpayment/credit applied to the 2006 taxes.

**Line 9** Enter the amount of previous payments from 2006 estimated tax payments, payments made with an application for extension of time to file, or other payments previously made.

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**Composite Filers only use these lines as the estimated payments and credits usually pass-through.**

**Line 10** Enter the amount of payments from nonresident real estate withholding (from **VT Form RW-171**). Indicate the FID # of the source entity.

**Line 11** Enter the amount of 2006 estimated tax payments made for you by a pass-through entity of which you are a nonresident partner, member or shareholder. (This would be a payment made by another entity for an affiliate using **VT Form WH-435**.) Indicate the FID # of the source entity.

**Line 12** Enter the total amount of Vermont tax credits earned from VT Form BA-404, Part II, Column B, Line 24. This line is only for those entities filing a composite return and reporting the portion of those credits for those nonresidents who have consented to be included in this composite filing. Otherwise, credits are passed through to the shareholders, partners, or members and reported on the VT Schedule K-1VT and VT Form BA-404. Credit calculation schedules and credit allocation schedules must be attached to the return. The credit amounts available are limited to 80% of the taxpayer(s) Vermont tax on the Schedule K-1VT income only, excluding wages received from the entity. The credit available is calculated as follows: Divide the VT Schedule K-1VT net income by the individual's Vermont adjusted gross income (VT AGI). Multiply the results by the individual's pre-credit Vermont income tax and then multiply that by 80%. The result is the individual's available credit from all sources. These credits can be applied against 80% of the entity's composite tax liability but may not reduce the liability below the minimum entity tax. For each Economic Advancement Tax Incentive (EATI) credit earned, a credit calculation schedule, a credit allocation schedule, a copy of the original authorizing document, and a copy of the EATI Annual Activity Report must be attached to the return. Credits in the EATI program

are authorized by the VT Economic Progress Council (VEPC) {(802) 828-5256} and include **payroll, workforce development, research and development, export, capital investment, high-tech growth, sustainable technology research & development, and sustainable technology export credits.** Contact the Department of Taxes at (802) 828-5723 regarding **Financial Services Development** credit and the **Tax Credit for Training Employees.** The Downtown Development Board {(802) 828-3047} authorizes tax credits for **facade and code compliance work** on older or historic buildings and for the installation of **platform lifts, elevators, or sprinkler systems** for qualified buildings located within Designated Downtown districts. For buildings located within designated Village Centers, the Downtown Development Board authorizes tax credits for the **Sustainable Rehabilitation of Certified Historic Buildings** and for **Code Improvements to Commercial Buildings.** The Vermont Housing Finance Agency {(802) 864-5746} authorizes the **Affordable Housing** incentives. Claiming these non-EATI credits requires a credit calculation schedule, a credit allocation schedule, a copy of the original authorizing document (as applicable), and substantiating documentation which must be attached to the return. The VT Department of Taxes has final authority in applying any credits against tax liability. Please check the box at the bottom of VT Form BI-471, Side 1. Call (802) 828-5723 if you have questions regarding credit calculations or requirements.

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**Line 13** Add Lines 8, 9, 10, 11, and 12, as applicable. Enter the result here.

**Line 14** Use this line only if filing a **composite (block) return.** Enter the total estimated payments made for all nonresidents of Vermont who have consented to be included in this composite filing. This amount is the total of the applicable lines from Side 2, Column E of **VT Form BI-472, Vermont S Corporation Schedule**, or Side 2, Column G of **VT Form BI-473, Vermont Partnership/Limited Liability Company Schedule.** Also include payments made by composite members on their own behalf. Attach a schedule showing the amount, date(s) of payment, name and SSN of that member.

**Line 15** Total payments and credits. Add Lines 13 and 14, as applicable. Enter the total here and on Side 1, Line 5.

### **Signature Section**

The return must be signed by an officer or agent of the entity and the preparer. Please put your **Vermont Business Account Number (VBA#)** or Federal Identification Number (FID#) on your check, made payable to **Vermont Department of Taxes**, and attach it to the front of the return. Send **VT Form BI-471**, a copy of the Federal return, and all supporting schedules to the address listed below. If authorizing the Department of Taxes to discuss this return and attachments with your preparer, check "Yes" for this question. This will not authorize the Department of Taxes to discuss the filing status of the shareholders, partners or members. Each individual must authorize such disclosure.

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### **Mailing address:**

**Vermont Department of Taxes**  
133 State Street  
Montpelier, VT 05633-1401

**Taxpayer Services:** (802) 828-5723  
**Email Address:** [tax-corpincome@state.vt.us](mailto:tax-corpincome@state.vt.us)  
**Web Site Address:** <http://www.state.vt.us/tax>  
**Facsimile:** (802) 828-5787  
**Forms:** (802) 828-2515